



# BDO MONTHLY BUSINESS TRENDS INDICES

October 2014

# INTRODUCTION

The BDO Monthly Trends Indices are ‘polls of polls’ that pull together the results of all the main UK business surveys. This edition of the BDO Business Trends Report gives the Index numbers at the beginning of October 2014, using the results from business surveys that were carried out between the first and last days of the previous month.

## Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	✓	▽	103.3 in September from 103.8 in August
BDO Optimism Index	✓	—	105.0 in September from 105.0 in August
BDO Inflation Index	xxx	▽	96.6 in September from 97.0 in August
BDO Employment Index	✓✓✓	△	112.3 in September from 111.2 in August

KEY:     ✓ = above 100;     ✓✓ = (joint) highest in 12 months;     ✓✓✓ = above 100 and (joint) highest in 12 months  
           x = below 100;     xx = (joint) lowest for 12 months;     xxx = below 100 and (joint) lowest in 12 months  
           ✓✓x = (joint) highest in 12 months, but below 100;     xx✓ = (joint) lowest in 12 months, but above 100

# KEY FINDINGS

The BDO Output Index fell from 103.8 in August to 103.3 in September. Both sub-indices contributed to the decline, though the drop in the manufacturing sub-index was steeper than that for services. The recent trend in the data, which show a flattening out over the summer followed by a modest decline this month, suggest that economic growth has peaked for the time being. While growth will continue, we may see a lower rate in the next set of GDP figures than the 3.2% year-on-year growth that was recorded in Q2 2014.

The BDO Inflation Index continues to fall. This month it dropped from 97.0 to 96.6, a level not far from the dividing line of 95.0 between rising and falling costs. While prices for many manufacturing inputs are in decline, wages are still rising - albeit at a slow rate - meaning that the index stays just on the positive side. Overall firms expect continuing cost rises, but well below the long-term trend rate. Contributing factors include weak global commodity prices and slow wage growth in the UK.

The BDO Optimism Index remained stationary over September at 105.0. This is a robust reading, and means that overall firms expect economic growth to be at broadly the same rate in six months as they did a month ago. However, service firms' confidence is improving while that of manufacturing firms is in decline, mirroring the situation in the Output Index. Part of the divergence between the two is likely to relate to trade, which is much more important to goods than to services. The deteriorating situation in the Eurozone, our largest market, will disadvantage manufacturing more than service sectors.

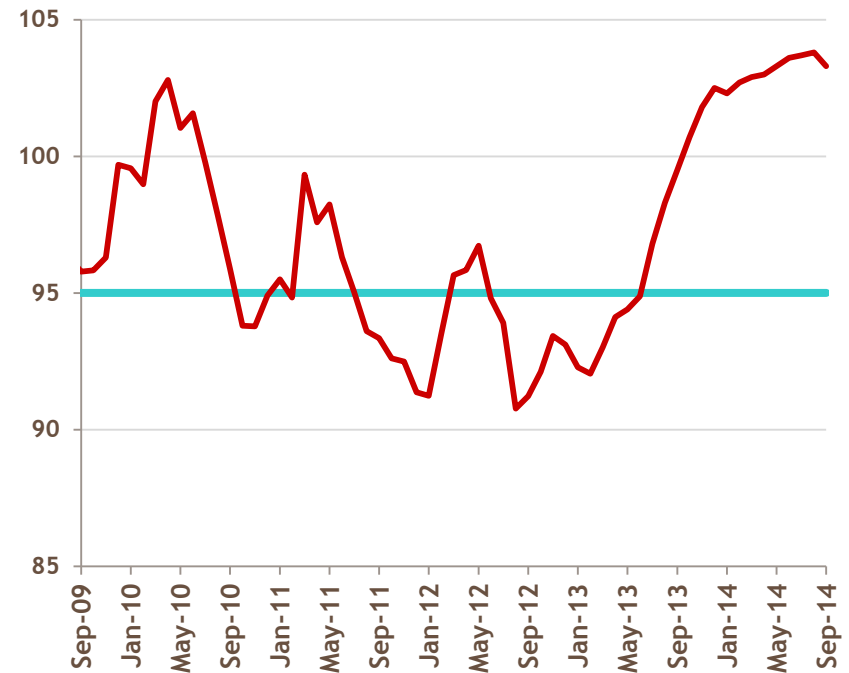
The BDO Employment Index showed another rise in September, marking its 13<sup>th</sup> consecutive upward movement. It stands at 112.3, up from 111.2 in August, meaning firms still expect hiring to continue at an above-average rate. Surveys conducted in most sectors have shown that many more firms are expecting workforces to grow than to shrink. However, the gap between the number of firms expecting growth and the number expecting contraction is narrowing, causing a slightly lower growth rate in the Employment Index in September compared to previous months.

# OUTPUT GROWTH TO SLOW ACROSS THE BOARD

- Over September the BDO Output Index, which measures the volume of economic activity, recorded a fall from 103.8 in August to 103.3.
- While still indicating economic growth above long-term average levels, it tells us the pace of the recovery is cooling down.
- September saw both the services and manufacturing indices fall. Both still stand above the long-term trend rate of 100.0, though manufacturing is significantly ahead of services.
- Manufacturing registered a fall of 1.6; the services index only edged down by 0.3 points.
- Coming as it does after a string of months of slow increases, September's outturn suggests growth may have peaked for the time being, and that a lower pace of growth is to follow.
- This is generally in tune with most forecasts. The latest growth rate was recorded at 3.2% year-on-year for Q2 2014 but most expect the rate going forward to be slightly lower than this.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive growth



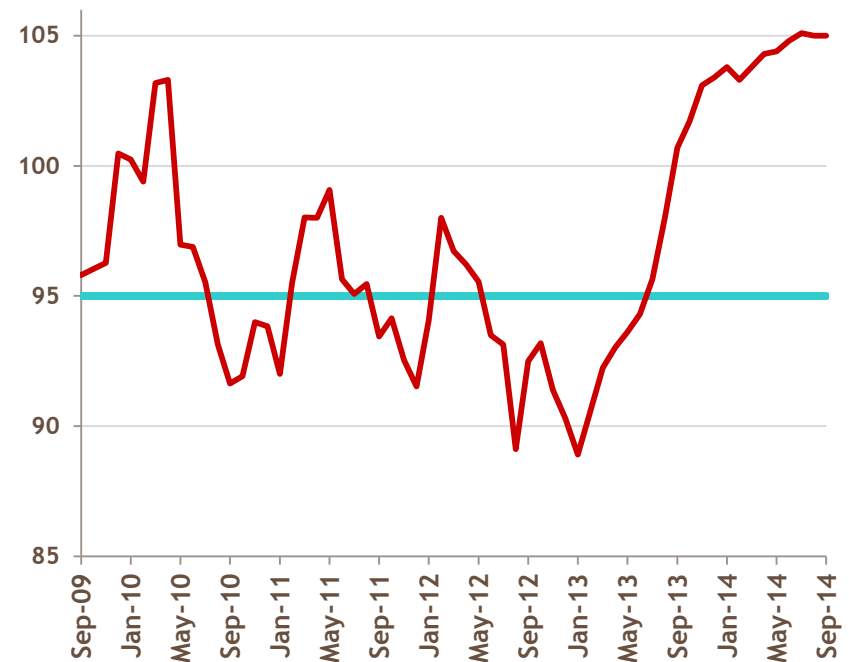
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# CONFIDENCE STEADY AS SERVICES OFFSET MANUFACTURING FALL

- The BDO Optimism Index, which measures expectations of output for six months from now, remained unchanged from August at 105.0 for September.
- Firms are still expecting to see growth over the next six months, and the level remains the highest for some time (excepting July's slightly higher 105.1).
- However, the headline figure masks a divergence in the results between the manufacturing and services sectors.
- Confidence in the manufacturing sector saw a fall from 118.8 to 117.4. It is still at a very high level, and so does not at the moment provide cause for concern. However, with the Eurozone economic situation weak, manufacturing will have to cope with reduced demand from abroad over the next few months which will hurt firms reliant on exports.
- The services confidence sub-index, meanwhile, grew by a small amount. As services are significantly more important to the overall economy than manufacturing, it was enough to ensure the overall index did not fall.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive growth



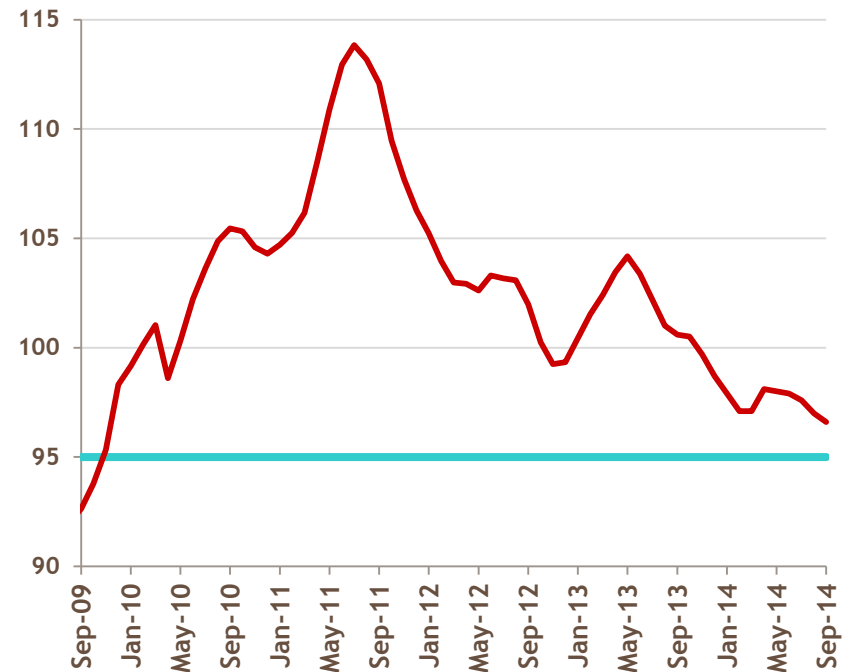
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO INFLATION INDEX INCHING CLOSER TO DEFLATION

- The BDO Inflation Index fell further. September's reading was at 96.6, down on August's 97.0.
- The reading is below the long-term trend, but still above the 95.0 mark that separates inflation from deflation, a level not seen since late 2009.
- This is the fifth consecutive month of decline. While (mostly) good for producers' margins, it is worrying for the economy as a whole.
- Globally, soft growth data and the faltering Eurozone recovery have meant prices of key commodities such as oil have stayed low or fallen.
- In the UK, official statistics reflect this, showing a 0.1% decline between July and August in factory gate prices (a measure relevant for manufacturers).
- For service firms, wage growth is still very low at 0.3% year-on-year for the May to July period. However, it is still above zero, helping the index overall to stay in positive territory.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive growth



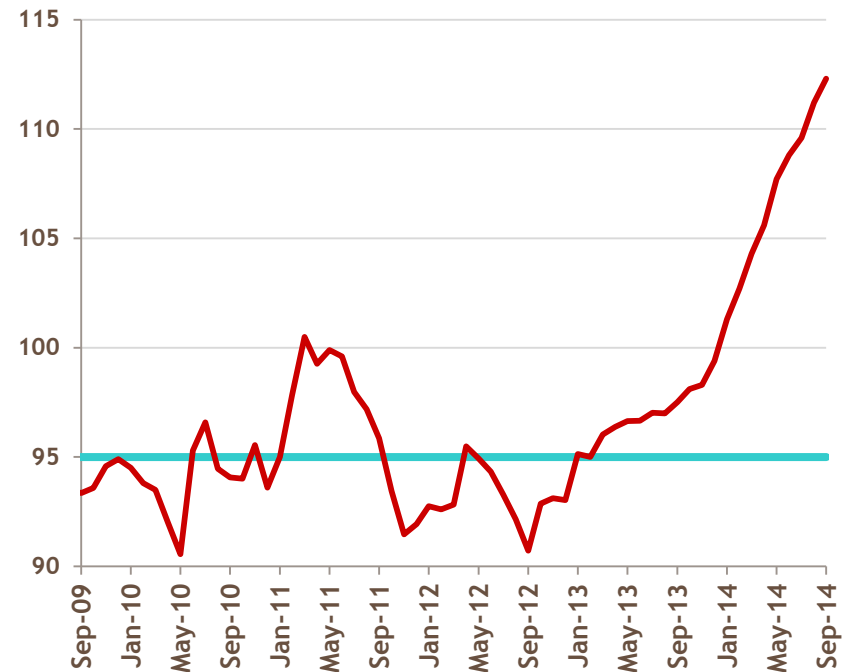
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT BRIGHTEST SPOT IN SEPTEMBER RESULTS

- The BDO Employment Index continues to rise, reaching a level of 112.3 for September. This represents another post-crisis high.
- The outlook over the near term is therefore slightly improved on August, with hiring expected to increase further and remain comfortably above the long-term average.
- This indicates the recent trend of falling unemployment is likely to continue. The last official reading for the unemployment rate showed 6.2% during the three months to July.
- Employment surveys continue to show positive readings. For example, the European Commission's services confidence indicator found that 29.5% more firms expect to see workforces growing than expect to see them contracting over the next three months.
- The pace of growth in this index is slower than previous months. Surveys this month in general have recorded positive balances of firms intending to hire, but by less emphatic margins than in recent months.

## BDO EMPLOYMENT INDEX

100 = average trend growth. Greater than 95 = positive growth



Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO INDICES TO LATEST MONTH

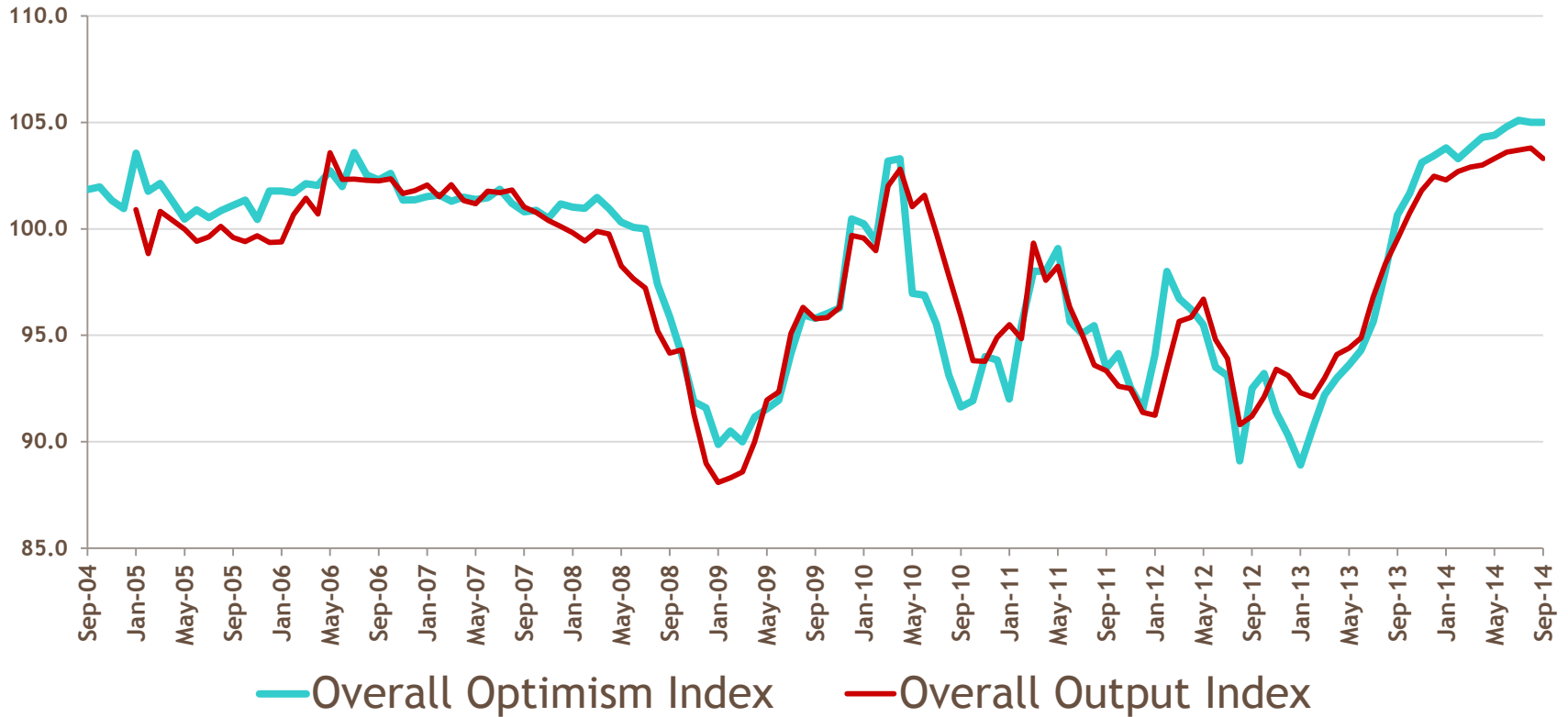
		Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014
The BDO Optimism Index	<b>Total</b>	100.7	101.7	103.1	103.4	103.8	103.3	103.8	104.3	104.4	104.8	105.1	105.0	105.0
	Manuf.	107.0	109.6	115.3	115.5	117.1	118.2	119.4	120.8	121.0	119.5	119.9	118.8	117.4
	Service	99.2	99.9	100.4	100.7	101.2	100.5	100.8	101.1	101.1	101.9	102.2	102.3	102.6
The BDO Output Index	<b>Total</b>	99.5	100.7	101.8	102.5	102.3	102.7	102.9	103.0	103.3	103.6	103.7	103.8	103.3
	Manuf.	103.6	106.5	108.1	109.8	111.3	112.0	112.8	113.5	113.9	114.5	114.4	113.2	111.6
	Service	98.6	99.4	100.4	100.8	100.6	100.8	101.0	101.0	101.3	101.5	101.6	102.0	101.7
The BDO Inflation Index	<b>Total</b>	100.6	100.5	99.7	98.7	97.9	97.1	97.1	98.1	98.0	97.9	97.6	97.0	96.6
The BDO Employment Index	<b>Total</b>	97.5	98.1	98.3	99.4	101.3	102.7	104.3	105.6	107.7	108.8	109.6	111.2	112.3



# APPENDIX 1: OUTPUT GROWTH SLOWS ACROSS THE BOARD

## BDO OUTPUT AND OPTIMISM INDICES

100 = average trend growth. Greater than 95 = positive growth

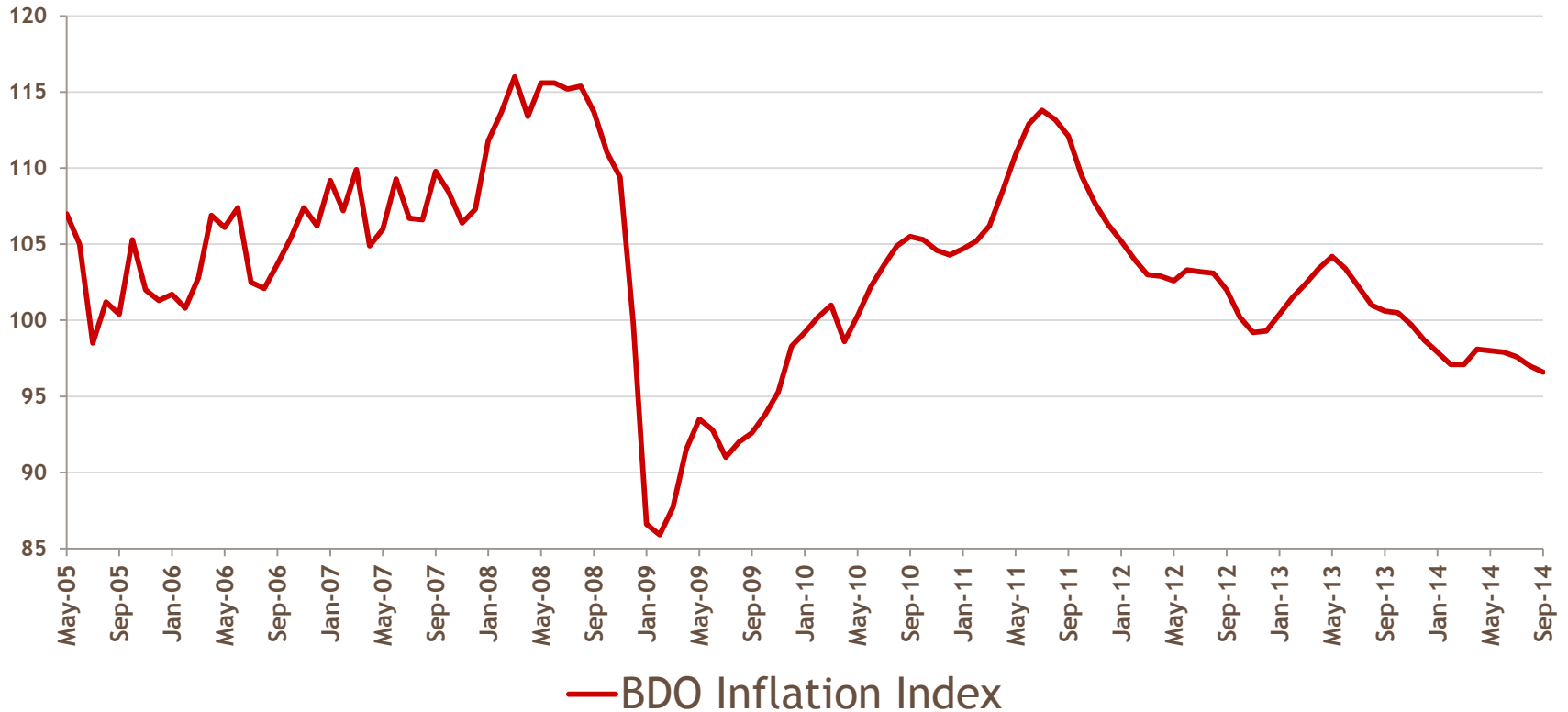


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: BDO INFLATION INDEX INCHING CLOSER TO DEFLATION

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive growth

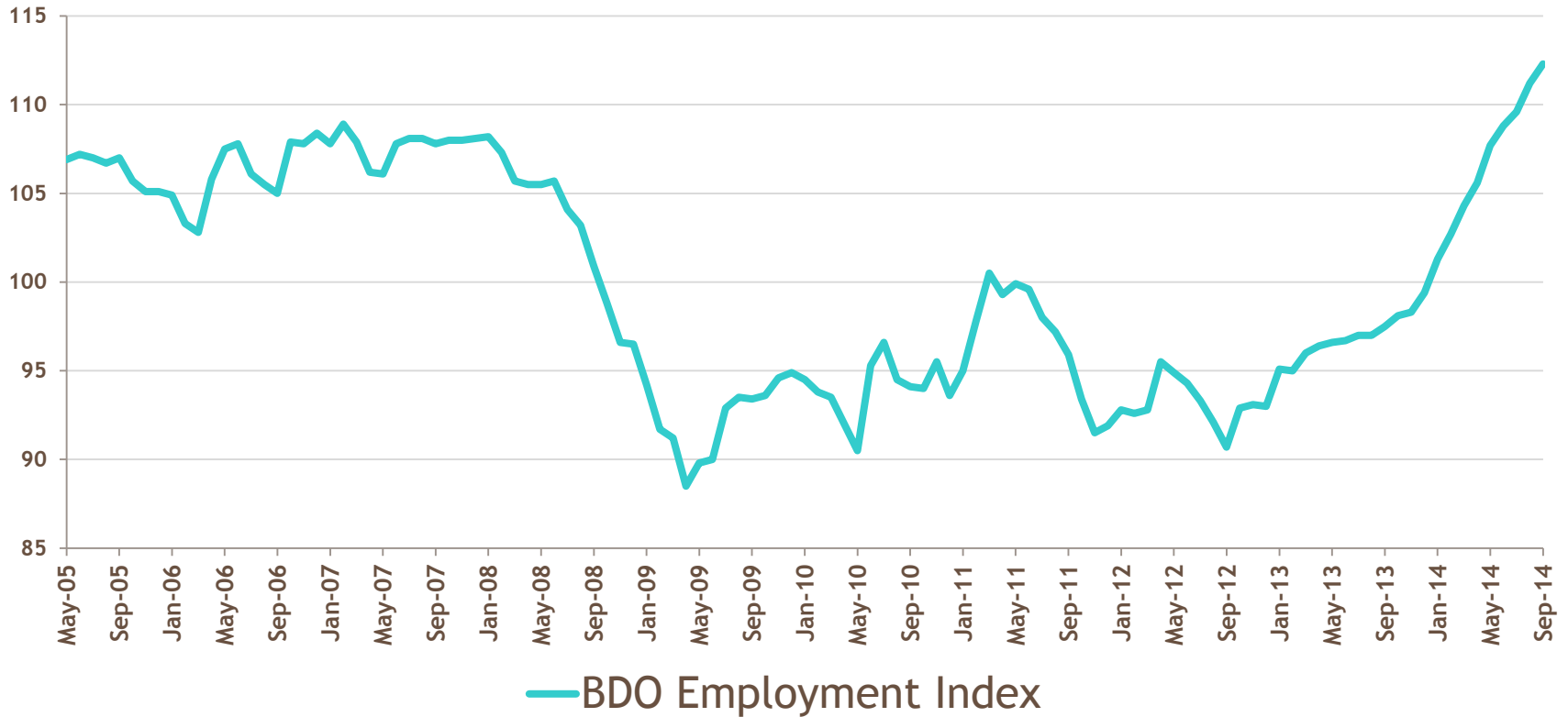


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: EMPLOYMENT BRIGHTEST SPOT IN SEPTEMBER RESULTS

## BDO EMPLOYMENT INDEX

100 = average trend growth. Greater than 95 = positive growth



Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FOR FURTHER DETAILS

## **PETER HEMINGTON**

BDO LLP,  
55 Baker Street, London W1M 1DA  
telephone: 020 7486 5888  
fax: 020 7487 3686  
email: [peter.hemington@bdo.co.uk](mailto:peter.hemington@bdo.co.uk)

## **SCOTT CORFE, ROB HARBRON OR ALASDAIR CAVALLA**

Centre for Economics and Business Research,  
Unit 1, 4 Bath Street,  
London EC1V 9DX

telephone: 020 7324 2850

email:

[scorfe@cebr.com](mailto:scorfe@cebr.com) / [rharbron@cebr.com](mailto:rharbron@cebr.com) / [acavalla@cebr.com](mailto:acavalla@cebr.com)

web: [www.cebr.com](http://www.cebr.com)

# METHOD NOTES

The BDO Monthly Business Trends Indices are prepared on behalf of BDO LLP by the Centre for Economics and Business Research, a leading independent economics consultancy. Cebr has particular strengths in all forms of macroeconomic and market forecasting for the UK and European economies and in the use of business survey techniques.

The indices are calculated by taking a weighted average of the results of the UK's main publicly available business surveys. It incorporates the results of the quarterly CBI Industrial Trends Survey (and the CBI Monthly Trends Enquiry which is carried out in the intervening months); the Bank of England Agents' summary of business conditions; the Markit / the Chartered Institute of Purchasing and Supply's Surveys of Manufacturing and of Services; the DG ECFIN industrial and services confidence indices; the RICS construction market survey; the Manpower Employment Outlook Survey; and Eurostat's monthly business surveys.

Taken together the surveys cover over 4,000 different respondent companies, covering a range of different industries and of different business functions. Together they make up the most representative measure of business trends available.

The surveys are weighted together by a three-stage process. First, the results of each individual survey are correlated against the relevant economic cycles for manufacturing and services. This determines the extent of the correlations between each set of survey results and the relevant timing relationships. Then the surveys are weighted together based on their scaling, on the extent of these correlations and the timing of their relationships with the relevant reference cycles. Finally, the weighted total is scaled into an index with 100 as the mean, the average of the past two cyclical peaks as 110 and the average of the past two cyclical troughs as 90.

The results can not only be used as indicators of turning points in the economy but also, because of their method of construction, be seen as leading indicators of the rates of inflation and growth.